

IRS News Release

Media Relations Office

Washington, D.C.

Media Contact: 202.622.4000

www.irs.gov/newsroom

Public Contact: 800.829.1040

IRS Provides Guidance on the Treatment of Preproduction Costs of Creative Properties for the Motion Picture Industry

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WASHINGTON — Using the Industry Issue Resolution (IIR) program, the Internal Revenue Service today issued guidance that provides clarification on the treatment by film producers of costs incurred in acquiring and developing screenplays, scripts and other creative properties.

Revenue Procedure 2004-36 provides a safe harbor that permits taxpayers to amortize creative property costs ratably over a 15-year period for properties that are not scheduled for production within three years of acquisition.

Along with the revenue procedure, the IRS today issued Revenue Ruling 2004-58, informing taxpayers that unless they had formally established an intention to abandon the creative property they cannot claim a loss deduction for the capitalized costs of acquiring and developing the property. Also, should the property become worthless, the taxpayer can only take the related deduction if there is a closed and completed transaction fixed by an identifiable event establishing the worthlessness of the property.

These two publication items were initiated as a result of an IIR Program request submitted on behalf of the Motion Picture Association of America.

The IIR program, launched in 2001 by IRS, tackles tax issues submitted by taxpayers, associations and other groups representing businesses. The objective is to resolve frequently disputed or burdensome tax issues.

Revenue Ruling 2004-58 and Revenue Procedure 2004-36 have been posted to IRS.gov and will be published in Internal Revenue Bulletin 2004-24, dated June 14, 2004. Information on the Industry Issue Resolution program may be found in Revenue Procedure 2003-36, 2003-18 I.R.B. 859, also available at the Web site.